SAB | Local Government Pension Scheme Advisory Board England & Wales

Paper D: Funding Strategy Statement – Research Project Report

Key points to note

In March 2025, the Association of Consulting Actuaries (ACA) wrote to the board with concerns regarding employer exit valuations. This letter was discussed at the 30 June 2025 CMBDA meeting and it was proposed that new Funding Strategy Statement guidance would address those concerns to some extent. It was agreed by the committee that the Secretariat would review the content of a sample of FSS's produced under the new guidance and provide an analysis of this back to the Committee. This was paused until the valuation round was completed and there was confidence that new FSS's would have been developed. At the March 9th CMBDA meeting the committee agreed to the research project and methodology proposed by SAB. This paper reports the findings of that research project.

Recommendation

That the committee notes the research project report and considers whether any changes to the FSS guidance are needed, and whether the findings should be shared back with the ACA.

Background

Updated guidance on the preparation and maintenance of FSSs was published in January 2025. The publication was jointly reviewed and approved by the Board the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Ministry of Housing, Communities and Local Government. It superseded CIPFA's 2016 guidance.

The FSS is a key governance and funding document required under the LGPS Regulations. It sets out how each fund intends to meet its long-term liabilities, employer contribution strategies, and risk management framework. The LGPS is currently facing much change as well as recent market conditions, emerging funding

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surpluses, and employer movement (including exits, mergers, and organisational changes).

Funding Strategy Statement Research Report

Aims

This report presents the findings of a structured review of FSSs prepared by a sample of Local Government Pension Scheme (LGPS) funds.

The review is intended to provide a timely assessment of how funds are applying the updated guidance in practice.

The objectives of the review were to explore three main areas:

- **Compliance with Guidance**
  Assess whether each FSS aligns with the new guidance, including clarity, completeness, and structure.
- **Exit Policies and Methodology**
  Evaluate how clearly funds describe:
    - The statement of principles to be followed in relation to process and the calculations involved with employer exits
    - The justification and principles which would contribute to decisions around exits
    - The whole decision-making process on exits.
- **Treatment of Surpluses**
  Understand how FSS documents articulate funding surplus thresholds, the use of surpluses in setting employer contributions, and how they fit this with their overall risk management approach.

Methodology

A sample of 15 LGPS funds were selected for review using random selection, with constraints ensuring that at least two funds were selected from each geographical region, two from each of the four main actuarial firms, and representation from small, medium, and large funds. A list of the funds selected is at Annex A.

Each FSS was reviewed using a standardised assessment template aligned to the Annex C checklist of the FSS guidance. Content was assessed as; included, partially included or missing/unclear.

Findings were then analysed thematically to identify areas of consistency, emerging good practice, and areas where further guidance may be beneficial.

Findings

Compliance with the guidance

Overall, the review found a high level of compliance with the updated guidance across the sample.

Section A

All funds reviewed demonstrated full compliance with section A of the Annex C checklist. Each FSS clearly articulates the purpose of the fund within the context of the LGPS and outlines the role of the administering authority, including its fiduciary duty.

A consistent feature across funds is the clear alignment to LGPS priorities. For example, many FSS documents explicitly state that they aim *"to secure the regulatory requirement for long-term solvency… and meet the regulatory requirement for long-term cost efficiency".* Similarly, most funds provide a clear explanation of the role of the administering authority and its fiduciary duty to ensure that benefits are paid as they fall due. Monitoring arrangements are also well developed, with all funds reviewed operating a triennial review cycle supported by interim review triggers such as market changes, employer covenant deterioration, or structural changes to employer composition.

There was some variation in the level of detail provided in Section A of funds' FSSs, but all funds reviewed met the checklist requirements.

Section B

Compliance with Section B is also strong overall, particularly in relation to the core funding framework and the calculation of employer contributions. All funds clearly describe their funding targets and explicitly reference the regulatory requirement to ensure solvency and long-term cost efficiency.

A consistent feature across the sample is the use of modelling frameworks to balance contributions, investment returns, and funding outcomes. Many funds now adopt advanced approaches, including Asset Liability Modelling. For example, some funds explain that "*the Fund actuary uses a model to project each employer's asset share under a range of future economic scenarios… to understand the potential range of funding outcomes.*"

There is also widespread compliance in differentiating funding approaches by employer type, with many funds applying different assumptions, time horizons, or funding bases depending on employer risk characteristics. This reflects alignment with the guidance requirement to reflect employer-specific circumstances.

Risk management is generally well developed within Section B, with most funds including dedicated discussions of investment risk, funding risk, and employer covenant. However, the depth of these discussions varies. While some funds provide detailed and structured approaches including explicit linkage between risk, funding assumptions, and employer covenant, others treat these elements more implicitly within the narrative.

While all funds make reference to their Investment Strategy Statement, fewer clearly articulate how the funding strategy and investment strategy interact in practice. For example, it is common for funds to state that *"the funding strategy reflects the Fund's investment strategy"* but fewer go further to explain how funding requirements influence asset allocation decisions, or how strategies would adapt if investment returns fall below expectations. Discussion of strategy alignment between the FSS and Investment Strategy Statement met the basic compliance for the checklist, but best practice was when funds delved deeper into this with explicit discussion and modelling.

The treatment of guarantors was another inconsistent part of section B across reviewed funds. Some funds provide detailed frameworks, explicitly linking the presence and strength of a guarantor to funding assumptions and exit calculations. For example, certain funds note that *“different valuation bases may apply depending on the presence and strength of a guarantee”.* Whereas others only refer to guarantors at a high level, without clearly explaining their impact on funding or risk.

Across the sample, funds generally demonstrate only partial compliance with the guidance in relation to employer notification requirements linked to employer covenant monitoring. While most FSSs identify a range of trigger events that may prompt review, such as changes in employer covenant, organisational restructuring, or financial deterioration, these are typically presented as circumstances under which the administering authority may take action, rather than as explicit obligations placed on employers. In many cases, the FSS lists relevant events but does not clearly define the process that employers must follow in notifying the fund and in some instances the link to employer responsibilities is implied rather than stated. While there is clear recognition across funds of the types of events that are relevant to covenant monitoring, there is less consistency in defining employer obligations and the processes that apply.

Overall, Section B demonstrates strong compliance with the guidance checklist, but with variation in the clarity and explicit narrative of areas such as investment integration, covenant assessment, and guarantor treatment.

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Section C

Compliance with Section C was generally good across the sample. Content varied from meeting basic compliance with the checklist to in depth best practice examples, particularly in relation to the depth of policy and governance description. All funds clearly described the core lifecycle events for employers, including joining the fund, bulk transfers, and employer exits.

In relation to employer exits, all funds state that an actuarial valuation will be undertaken to determine the funding position at cessation. Many funds go further by providing dedicated cessation or termination policies, which set out detailed methodologies for calculating exit payments, deficit recovery and exit credits. In some cases, these policies represent a high level of technical clarity and transparency.

However, there is greater variability in how funds describe the decision-making process associated with employer events. While most FSS documents identify the roles of the administering authority and actuary, they do not typically provide a fully articulated, end-to-end description of how decisions are made in practice.

In particular, most funds do not clearly set out the stages of decision-making, how decisions are approved, timelines for key decisions and/or formal processes for employer engagement, representation, or appeal. This means that although the technical processes are clearly described, the governance framework underpinning those processes is often implicit rather than explicit.

A key area of variability identified across the sample relates to the treatment and articulation of specific regulatory tools associated with employer exits, including Deferred Debt Agreements (DDAs), debt spreading arrangements, suspension notices, and partial termination policies. While the guidance expects funds to describe how these mechanisms operate in practice, the level of detail provided varies considerably.

In relation to DDAs, many funds demonstrate strong compliance, with several

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including dedicated policies or appendices. These typically set out the circumstances under which employers may remain within the Fund post-cessation, the contribution requirements during the arrangement, and the basis on which funding targets are adjusted. For example, a number of funds clearly explain that under a DDA, an employer "*remains in the Fund and continues to make contributions until its funding position improves sufficiently,"* providing a structured and transparent framework. In these cases, DDAs are well integrated into the broader funding and risk management approach.

However, this level of clarity is not universal. In a number of funds, DDAs are referenced but not fully explained, with limited detail on eligibility criteria, decision-making considerations, or how such arrangements interact with funding assumptions and employer covenant assessment.

The treatment of suspension notices shows even greater variation. A small number of funds provide explicit policies, outlining when a suspension notice may be issued, how contributions are treated during the suspension period, and what occurs at the end of the suspension. In contrast, many funds either do not refer to suspension notices at all or only mention them briefly without explaining the conditions under which they would be used. Where referenced, the explanation is often limited to a statement that cessation may be deferred *"at the discretion of the administering authority"* without further detail on the governance framework or criteria applied.

Interestingly, many FSSs included partial termination policies while a minority of funds explicitly state that partial terminations are not permitted except in exceptional circumstances. However, for those funds which included a partial termination policy there was typically little elaboration on what constitutes appropriate circumstances or how decisions would be made. Only a small number of funds provide a structured explanation of how partial terminations would be managed and how the interests of the Fund and remaining employers would be protected.

In contrast, bulk transfer arrangements are generally well described across the sample, with most funds including dedicated sections outlining the process, responsibilities, and actuarial considerations involved. This suggests that areas where processes are more routinely exercised or historically established tend to be more consistently documented than newer or more discretionary regulatory tools.

Exit policies and methodology

The review found that employer exit policies are generally well developed across the sample, particularly in relation to an actuarial valuation will being used to determine funding outcomes at the point of exit. In addition to this baseline compliance, a number of funds demonstrate best practice through the inclusion of detailed cessation or termination policies. These are often presented as standalone appendices and provide a structured framework for calculating exit positions, including the treatment of deficits, the allocation of assets, and the application of actuarial assumptions. In stronger examples, such as Buckinghamshire, Staffordshire and Greater Manchester, these policies also incorporate related tools such as DDAs, resulting in a comprehensive and transparent approach to exit management.

Most funds embedded a set of underlying, high-level principles that inform decision-making at exit. These typically include prudence, long-term solvency, fairness between employers and the need to protect the financial position of the remaining fund. However, the extent to which these principles are explicitly structured and presented as a coherent decision-making framework varies across the sample.

The most significant area of variation relates to how funds describe the overall decision-making process associated with employer exits. While most FSS documents clearly identify the roles of key parties, including the administering authority and actuary, they generally provide limited detail on the sequence of decision-making stages, the governance framework under which decisions are approved, or the mechanisms through which employers may engage with the process and appeals.

For example, while many funds explain that decisions will be made in accordance with fund policies or at the discretion of the administering authority, they rarely elaborate on how that discretion is exercised, whether decisions are subject to formal approval processes, or how consistency is ensured across cases. Similarly, there is little reference to timelines, escalation routes, or formal processes for representation, challenge or appeal. As a result, although the technical aspects of exit calculations are clearly set out, the governance that underpins those decisions is often implicit.

Overall, there remains scope to improve the clarity and transparency of the governance framework surrounding exit decisions.

Treatment of surpluses

The treatment of funding surpluses reflects an increasingly important aspect of the funding strategy, given the improved funding positions observed across many LGPS funds. While all funds recognise the relevance of surplus within their funding framework, the extent to which this is explicitly articulated and integrated into decision-making varies.

Across the sample, all funds demonstrate a clear operational link between funding position and employer contributions.

However, there is considerable variation around defining the surplus. Many funds simply define a surplus as the excess of assets over liabilities.

In contrast, a number of funds define surplus in relation to funding targets. Some approaches go further still by introducing explicit surplus buffers above full funding. A notable example is a fund which states *"the target funding level may be set greater than 100% as a buffer against future adverse experience."* Similarly, other funds incorporate funding targets above 100% or utilise probability-based funding criteria, with surplus considered within the overall risk framework.

Most funds can demonstrate a direct relationship between funding level and contribution rates, with surplus positions linked to reduced contributions. However, the mechanism through which this occurs varies. Some funds rely on relatively straightforward adjustments within the actuarial valuation process, while others employ more complex approaches, including phased reductions, contribution smoothing, or the use of formal surplus offset frameworks. Many funds also give emphasis to contribution stability and so surplus is only released gradually over time.

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The most significant point of differentiation across the sample lies in how explicitly surplus is integrated into the broader risk management framework.

While some funds often reference prudence, stability, and long-term solvency, they do not explicitly explain how decisions about surplus release are balanced against these considerations. As a result, the connection between surplus management and risk is inferred rather than clearly described.

This committee is asked to consider whether the guidance should be amended to require a more explicit articulation of surplus policies and their interaction with risk management.

Conclusion

The review found that the LGPS funds sampled were largely compliant with the 2025 FSS guidance, which has been extremely successfully adopted in terms of structure and core requirements. Most funds demonstrated strong and well-developed funding frameworks on the whole. However, there is some clear variation in the depth with which funds communicate their strategies how robustly governance and decision-making processes were defined.

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Annex A - list of the funds selected for review

Leicestershire
Berkshire
Environment Agency – active fund only
Camden
Buckinghamshire
Powys
Merseyside
West Yorkshire
Waltham Forest
Greater Gwent (Torfaen)
Greater Manchester
Kensington and Chelsea
Hackney
Staffordshire
Gloucestershire

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